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IMH - Q4 2015 Impac Mortgage Holdings Inc Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Impac Mortgage Holdings year-end 2015 earnings call.

(Operator Instructions)

As a reminder, today's call is being recorded, Friday, February 19, 2016. Now, I would like to turn the conference over to Justin Moisio, Vice President of Investor Relations. Please go ahead, sir.

Justin Moisio - *Impac Mortgage Holdings, Inc. - VP of IR*

Good morning, everyone, and thank you for joining Impac Mortgage Holdings' year-end 2015 earnings conference call.

During this call, we will make projections or other forward-looking statements in regards to, but no limited to, GAAP and taxable earnings, cash flows, interest rate risk and market risk exposure, mortgage production, and general business conditions.

I would like to refer you to the business risk factors in our most recently-filed Form 10-K under the Securities and Exchange Act of 1934. These documents contain and identify important factors that could cause the actual results to differ materially from those contained in our projections or forward-looking statements. This presentation, including any outlook and any guidance, is effective as of the date given, and we expressly disclaim any duty to update the information herein.

I would like to get started by introducing Joe Tomkinson, Chairman and CEO of Impac Mortgage Holdings.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Good morning. And again, welcome to our 2015 earnings call. With me is Bill Ashmore, our President; Todd Taylor our Chief Financial Officer; Ron Morrison, our General Counsel; and George Mendocino, our Head of Capital Markets.

Let's start with a brief review of the results for 2015. The net earnings in 2015 were $80.8 million. This compares to a loss of $6.3 million in 2014. The net earnings in the fourth quarter were $10.7 million, and again, this compares to net earnings of $19.3 million in the third quarter.

However, as we've discussed in the earnings release, we believe it is more useful to discuss operating income, excluding changes in the contingent consideration, to get a better understanding of the operating results. In 2015, operating income, excluding contingent consideration changes, increased by $46.7 million to $33.5 million, as compared to a net loss of $13.2 million in 2014. In 2015, our newly-acquired CashCall Mortgage consumer direct channel contributed to the increase in originations with volumes in 2015 increased to $9.3 billion, or 225%, as compared to $2.8 billion for 2014.

Additionally, as a result of production with a higher concentration of retail volume from CashCall Mortgage, our gain on sale margins nearly doubled in 2015 to 183 basis points, which compares to just 99 basis points for 2014. Using the same measurement in the fourth quarter of 2015, we had an operational loss of $593,000, and this compared to $8.5 million gain in the third quarter of 2015.

In the fourth quarter of 2015, origination volumes was consistent with our expectations, and with the rest of the market. Volumes declined from $2.3 billion in the third quarter to $1.9 billion in the fourth quarter. The decline in volume, which was very seasonal, was due to an increase in mortgage rates, and also the implementation of the new TRID regulatory requirements.

Beginning in October of 2015, lenders were required to change the origination process, to adhere to more specific timeline rules, and were required to start using new disclosure forms called the loan estimate and closing disclosure. This replaced other forms that had been in use for decades, but this resulted in significant changes to the mortgage lending process, and the unintended consequences resulted in a back-up of our mortgage pipeline and our customers.

Although the Company was prepared for the implementation of TRID in its own consumer direct channel, its customers in the wholesale and correspondent channels experienced longer turn times in closing their loans, and as a result of this, these new closing demands from TRID increased operational expenses, and delayed everyone's fundings. As we move forward, we continue to reduce these turn times through automation and the training on the TRID process, not only for our employees, but also for our customers, which will expedite the fundings and again bring down expenses.

This, combined with expected lower margins in the fourth quarter and increased TRID-related expenses caused a decline in the gain on sale margins, resulting in a decline in the overall revenue for the quarter. Because of the expected volume decline, we reduced our TD and our [radio margining] budget by $2.7 million in the fourth quarter.

The Company continues to reduce its expenses, not expected not only in the ongoing operations, but also in its discontinued operations. During the fourth quarter of 2015 and the first quarter of this year, the Company reduced our expenses by approximately $5 million or $0.41 per share annually, including debt financing costs. This continues to allow the Company to be more competitive in the mortgage market, and strengthen the overall financial condition of the Company.

Not only have we reduced overall monthly operating costs in the mortgage division by over $250,000, and again that's monthly, we've also completed a modification of our lease, of our corporate headquarters facility, reducing the monthly rent payments by approximately $100,000, or an annualized savings of $1.2 million. Also, in January of 2016, the Company decided to exercise the option to convert $20 million of debt to common stock, increasing the book value of the Company by $20 million and saving the Company $375,000 in quarterly interest payments, for an annualized interest expense of $1.5 million. Altogether, the Company expects to realize total annualized expense reductions and savings of about $5 million.

During the first quarter of 2016, we consolidated our wholesale correspondent channels, which is expected to create better efficiencies by streamlining sales and operations in these channels. By eliminating redundancies that existed between the two channels, and creating a more simplified organizational structure, we expect to not only see increased production from our wholesale and correspondent channels, but we will also see increased efficiencies. During 2015, we continued to sell our servicing rights to manage the capital needs and the balance sheet asset concentrations.

In the fourth quarter of 2015, we sold $4.5 billion in servicing rights for approximately $46 million. Despite these servicing sales, at December of 2015, the Company's mortgage servicing portfolio still increased to $3.6 billion, a 58% increase from December 31, 2014. The retained mortgage servicing rights increased to $36.4 million as of December 31, 2015, as compared to $24.4 million at December 31, 2014.

At year-end, the Company's cash position improved, and had increased cash of $32.4 million. This is up from $10.5 million at the end of the third quarter. As Impac continues to grow its franchise, we will continue to diversify our products, to create additional revenue streams around our core mortgage lending business.

By the middle of this year, we will launch a consumer direct unsecured loan origination platform. This will not only leverage off our overall mortgage originations, by providing future lead generation possibilities that haven't been fully monetized to the newly formed consumer direct platform, but we also believe that there's an opportunity to leverage this platform on our mortgage lending leads in our legacy portfolio and the Internet to offer additional loan products.

By doing so, we expect to lower the cost of acquisitions to generate additional revenue streams, without materially adding infrastructure costs to our existing platform. We expect this will allow us to better monetize our current mortgage leads by using them to generate these consumer loans, without incurring increased lead expenses. Even though we do not expect this new consumer direct channel to be a significant pull in 2016, we are laying the foundation for a more diversified revenue stream in 2017 and beyond.

Let's move on to discussing Impac's efforts in the non-QM lending space. The non-QM market is expected to be a sizable segment of the overall mortgage production in coming years, and as such, we are committed to the growth of this portion of our originations. In the latter half of 2015, as a result of the feedback from our borrowers and our business to business partners, we have simplified our non-QM program guidelines, and have created a more origination-friendly loan product.

These changes will further provide flexibility to help qualify credit-worthy borrowers that are unable to get financing from current traditional mortgage programs. As a result, we have seen a significant increase in our non-QM mortgage originations, and we expect these originations to be a significant percentage of the overall production by the end of 2016. Our viewpoint on this product is not that it is a niche product, but will be part of the full spectrum of lending that Impac will offer.

Further, to better represent the essence of this program, Impac is set to relaunch our non-QM loan program as the intelligent non-QM mortgage, engineered with common sense. Therefore in 2016, Impac lending product footprint will include unsecured consumer loans, non-QM loans in addition to its agency and government mortgage loan programs. As part of our strategy to strengthen Impac's ability to grow and exercise more control over the disposition of certain assets it generates, we have formed an external asset manager. The strategy is to raise third-party capital in order to invest in the assets that Impac is originating. Timing to raise capital at the asset manager is always determined by the market, and we expect it to coincide with less volatility in the financial markets.

As part of our efforts to be more competitive in the financial products and services we offer, we will also continue to enhance our technology platform. The first component is our proprietary non-QM system called iDASL, which is Impac's direct access system for lending. We launched or relaunched iDASL in 2015 as a non-QM pre-qual engine, and will roll out iDASL 2.0 in 2016, by providing a fully automated approval for our non-QM loan products.

In addition, we are in the process of integrating our underwriting system with Fannie Mae's desktop underwriting. Next will be the build-out and the implementation of our consumer direct web portal, and automated risk-based underwriting engine, with a launch date set for mid-2016. The Company is and will be making a commitment to enhance its technology platform, to not only increase customer satisfaction, but also enhance our efficiencies to reduce the overall cost and time to close and fund loans.

As expected, we have seen a significant increase in our LOC pipeline since the end of the year. At the end of December last year our LOC pipeline was $568 million as compared to $678 million in January of 2016, and over $850 million and approaching $1 billion to date. The pipeline growth will translate into increased mortgage origination volume in the subsequent months. In January, origination volume had dipped to approximate

$500 million; however in the month of February, originations should be over $700 million, and in March, we anticipate originations to increase even more.

In closing, we view 2015 as a very successful year with over $80 million in net earnings and over $9 billion in originations, which should make Impac a top-15 mortgage originator in the country. Further, we are very encouraged so early in the year to have our originations growing at such levels that we have not seen since the middle of 2015.

This is the end of my prepared remarks, and I will open it up to questions at this time.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Trevor Cranston, JMP Securities.

Trevor Cranston - *JMP Securities - Analyst*

I guess my first question, to follow-up on the comments you were making about the expected volumes in February and March, obviously we see the decrease in the marketing spend in the fourth quarter. Can you give us a sense if rates stick around this level or were even to rally a little bit further, what the expected increase in the marketing expense would be in the first quarter and into the second quarter? Thanks.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

As the pipeline increases, the marketing expenses go down, so we do a pretty good job of managing the marketing expense in relationship to our expectations. As I mentioned in my comments, we fully expected a decline in the fourth quarter, and as such, we declined our marketing expenses, because it takes a while for people to get acclimated to the increase in increased interest rates. Now as we continue to move forward and we are seeing the growth in our pipeline, we will adjust our marketing expense so that we don't exceed our capacities. Does that make sense?

Trevor Cranston - *JMP Securities - Analyst*

Yes, it does and that's very helpful. The second question I had, on the external asset manager that you were speaking about earlier. Does that imply that there's been any change in the existing strategic relationship you have with your partner acquiring AltQM, loans or is this the asset manager going to be a supplementary program that you will have the ability to sell AltQM and other products into?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

No, I think there's no change. As a matter fact, they have expressed an interest in being part of the asset manager. But it is a way for us to hold onto what we feel are very good assets, and also to raise additional capital, just for those assets. So we think that, that strategy is right in line with what the government would like to see, as far as when and if we get into the securitization market.

As you will recall, in our previous life we had approximately a portfolio of $30 billion in UPD in securities, that we held onto many of the residuals. For the last seven, eight years, we have done a very good job of managing those residuals, and receiving the income from those residuals. So we see this as a way to enhance what we are doing, and bringing additional income to the shareholders.

Trevor Cranston - *JMP Securities - Analyst*

Got it. Okay. My last question is also related to the AltQM product. Can you talk about how much competition you see out there in this space, for those types of loans right now, among your correspondent and wholesale customers in particular. Are you seeing many other lenders out there who are offering similar types of products, or could you just get a sense of how competitive that landscape is right now?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Yes, more and more are getting into it. You've got to remember it is not something where you just say, oh, I'm going to get into this market and then you dial it up. There's a huge learning curve.

We started on down this road two years ago, way ahead of our competition, and as such, we've been able to, for the lack of better word, through trial and error, we know what the market will accept. We know what the secondary market will accept, and so we have a pretty good foothold on it.

Also, there's a lot of folks that have said they're going to get into this space, either call it AltQM or non-QM, whatever you want to call it, but they haven't really learned how to fund it. And they haven't funded it, whereas we have been one of the very few that, when we approve a loan, we are approving it, funding it with our own capital, and we are holding onto it. Bill is sitting here, he may have more to add to that.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

There are a couple of retail banks that are in the non-QM, and behind that are some other originators that are backed by some hedge funds. But as Joe said, this is not an easy product to originate. What we have attempted to do is have a roll-out of extensive training of not only internal employees, but also certain customers.

And then specifically with CashCall, we have a dedicated unit over there because of the specificity of this particular product, both on the sales side, and on the underwriting side. So it takes a focused effort on the part of an originator, whether it be us retail direct with CashCall with a separate unit, or the education and the providing the tools to the customers out there, that will be originating the product directly.

If we are -- we are viewing this as a part of an overall full spectrum of products that we offer. We don't believe that this will be evolving into just a niche product, that is funding fall-off product that we are seeing. We are looking for through our CashCall and through our business-to-business partners to originate into the product guidelines, as opposed to using it as some sort of a fall-out net for their overall lending. So far that strategy has been working.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

The other thing Jim is, with our partner, this is not a -- hold on a second. Somebody is shoving a note under my --

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

It's not Jim, it's Trevor.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Oh, I thought you said -- you told me it was Jim. Sorry Trevor.

Trevor Cranston - *JMP Securities - Analyst*

That's okay.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

What's important is, this is very capital intensive, and we have a great partner, as you know in Macquarie. And so for both of us, this is a long-term asset and long-term play. It is not something like regional banks, that when their appetite fills up or their capital restraints keep them from originating more, then they turn the business off. We have a proven track record over time, not only to know how to originate it, but we know how to securitize it, and we know how to manage it. That's what we are in the process of doing.

Trevor Cranston - *JMP Securities - Analyst*

Right. Okay. That's very helpful. Thank you.

Operator

Steve DeLaney, JMP Securities.

Steven DeLaney - *JMP Securities - Analyst*

Appreciate you taking the question. I just have a couple things in addition to what Trevor asked. Joe, you mentioned that operationally, internally, you decided to combine the management structure for the correspondent and wholesale channels. I was just curious, going forward, do you still plan to break out your origination activity by all three channels, even though the correspondent and wholesale are under one management team?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Yes. The changes that Bill made is more infrastructure, and not external structure. It is already proving to be much more efficient and much more of a cost-saving.

Steven DeLaney - *JMP Securities - Analyst*

Okay, great. I know the big jump to 9 billion in originations in 2015, obviously CashCall was a big part of that. But the other two channels respectively were still like 25% and 15%, so 40% combined. If we looked to 2016, do you have any sense for how the correspondent and wholesale on a percentage of total originations, how that might look in 2016?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Yes, go ahead, Bill.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

What we are attempting to do is build all of the channels, but a good balance would be that we would have at least 50% in the business to business and 50% in the retail direct, which obviously we have got a ways to go on the business-to-business side. But based on the changes that we've made in management and the other changes from an operational standpoint, we think that we've got our cost structure down to a point to where we can be able to compete much more effectively business to business in 2016, than we were in 2015. Basically, if we can get it to a 50/50 balance, and get that closer to $1 billion per month run rate is what our expectations would be.

Steven DeLaney - *JMP Securities - Analyst*

(Multiple speakers) Go ahead, Joe. I'm sorry.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

What I was going to say is taking on an entity the size of CashCall took a lot of focus, and took a lot of energy, as you can imagine. Now, we are able to focus on -- now that we've done a pretty good job of integrating CashCall, and it is very, very efficient, in fact I personally think that it is one of the most efficient originators in the country.

Now we can bring a lot of what we've learned at CashCall to the wholesale and the correspondent division, and we can increase not only the efficiencies. By increasing the efficiencies, now we will be able to price better to our customers, and by pricing better to our customers, you are going to see an increase in volume without sacrificing profitability. But you can't have one without the other. Does that make sense to you?

Steven DeLaney - *JMP Securities - Analyst*

Yes, understood, Joe. I guess the other reason to stay competitive and to build those businesses, the B2B, is Bill referred to it, is I assume that's going to keep you plugged in to more purchase money flow, as well, correct? And maybe give you a less volatile origination pattern, if you were more dependent on just refi through CashCall, or am I thinking about it correctly?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Yes, you're thinking it exactly. I don't know, three years ago, four years ago, our purchase money production was closer to 65%, wasn't it? 65% to 70% because of those channels. You are exactly right. Over the next year or so, we're going to also be working on tapping into the purchase money market, using the CashCall platform.

Steven DeLaney - *JMP Securities - Analyst*

Okay -- (multiple speakers)

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

In addition to that, the fact that when we are dealing with Fannie Mae and Freddie Mac, we over this last year, have been able to be recognized as a national account for both of those agencies, that really allows us a better communication, not only in terms of pricing but in strategy. And then overall, we have regular phone calls with both agencies, strategizing not only on pricing on products, but also overall what benefits Impac will obviously benefit the agency. With that stature of not only more volume but also more diversified volume, allows that ability for that national status, and also allows to be much more -- better pricing more competitive.

Steven DeLaney - *JMP Securities - Analyst*

Great. Just one final thing to close, you have been great with their time. TRID was a big problem obviously, and we know from other lenders and following Ellie Mae that it was just a mess and I'm just -- you have got a lot of momentum now. Is there anything that we should know about on the regulatory front that could create another speed bump for you like TRID in 2016, or is it more, as you see it, is it more clear sailing at this point?

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Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

I think personally, it is more clear sailing, and I'm pretty well versed in the CFPB. I don't see anything on the horizon coming up. I think it is more continue to learn the process, making sure everyone understands the process, and then implementing the process.

Steven DeLaney - *JMP Securities - Analyst*

Okay. Thanks for the time and the comments today.

Operator

Michael Damani, Morgan Stanley.

Michael Damani - *Morgan Stanley - Analyst*

Could you touch again please on the sale of servicing, the amount that you did, and what it brought in, and how much cash, and the reasoning behind it?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Yes, Michael, I will let Bill answer that question. There's a lot of reasons, but it is basically cash management. Go ahead.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Yes, Michael, this is Bill. As part of the Company's overall business strategy, you're selling blocks of mortgage servicing rights on a regular basis as we have over the last year or two, the reason is basically two pronged: First regular sales of MSRs allows the Company to better manage its capital position, and overall asset allocation. Secondly, with the volatility of interest rates, we have seen it reduces the overall risk to the Company by being able to manage a smaller book of MSRs.

With all that being said, the Company is currently, as we have through the end of last year, aggressively trying to structure, and we think we've come to a structure that makes sense on a retention program, so when it sells its MSRs to third parties, it can also have more control in the possible MSR refinancing. We will have more updates on that, but we think we've come to a structure that makes sense. So we can basically be originating the loans, selling them on a regular basis, but also being able to participate in the refinancing of those MSRs when you're seeing the interest rates dip down to where they are today.

Michael Damani - *Morgan Stanley - Analyst*

The amount of cash that it generated was how much? From this recent sale?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Almost $47 million. For the year? Yes, about $47 million

Michael Damani - *Morgan Stanley - Analyst*

Okay, great. Thank you very much.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

That was just for the fourth quarter, okay.

Michael Damani - *Morgan Stanley - Analyst*

Thank you.

Operator

Walter Keating, UBS.

Walter Keating - *UBS - Analyst*

2015 was pretty darn good year, fourth quarter obviously was a little disappointing. Talking about TRID, do you feel confident that the wholesale and correspondent division, the participants on the other side, are now up and ready to operate with the new rules?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

I feel confident about our processes. We don't have any control over our customers' processes. What we do is, we offer training, and we help them, and we have been pretty good at that. But if we were to bring on a lot of new customers, and they didn't have -- let me back up. I don't think that we would be bringing on customers that weren't in compliance with TRID, so I have to answer the question, that I don't really see any TRID-related real problems. Does that help you?

Walter Keating - *UBS - Analyst*

Yes, absolutely. How many states is CashCall currently approved in?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Roughly 44 states.

Walter Keating - *UBS - Analyst*

When you first bought CashCall back in January, weren't they only approved in 17 states, as I recall?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Eight states.

Walter Keating - *UBS - Analyst*

Okay. The last question, you talked somewhat about the new business, getting more involved, and using iDASL to look at other things. Is CashCall now qualifying people for these other types of loans?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

As a matter of fact I think their volume in that [to] will double next month. Yes.

Walter Keating - *UBS - Analyst*

That's great. That's great. On the financial structure, you talked about the partnership, can you expand any more on that? I'm trying to understand it.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

I really can't.

Walter Keating - *UBS - Analyst*

Okay. Thank you very much.

Operator

Michael Salzhauer, Benjamin Partners.

Michael Salzhauer - *Benjamin Partners - Analyst*

Let's see, when you talk about consumer loans, what kind of loans are you talking about? Are they HELOC loans or unsecured loans?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

No, they are unsecured loans. Bill, do you want to elaborate a little bit?

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Yes, the initial foray into the unsecured is going to be loans that are $5,000 to $65,000. Average balance is $15,000 to $20,000. Will be possibly as low as a 660 FICO.

Average FICO will probably be low 700s. Interest rates on average will be in the low teens. APRs, we are looking at the APRs to be under or no more initially then 36%. We are looking to do that nationwide, but these are unsecured loans.

Michael Salzhauer - *Benjamin Partners - Analyst*

The reason that you think you have expertise in this is because of the knowledge of the people's credit histories?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Not only their credit histories but also of our association with the CashCall operation. You have to remember we also have about, which is virtually untapped, I mentioned this very briefly, the legacy portfolio, it was $30 billion now it is down to roughly $6 billion, and we have managed that credit for about 10 years. But there is just an untapped gold mine of prospects in that portfolio.

Michael Salzhauer - *Benjamin Partners - Analyst*

That's what I meant, these are people that you -- they're in-house already?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

That's correct.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Yes.

Michael Salzhauer - *Benjamin Partners - Analyst*

Okay. With respect to the Company's DTA, what is the process for recognizing more of it and then coming onto the balance sheet?

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

Hi, this is Todd Taylor. The process is -- we go through a quarterly evaluation to understand what our projected taxable income will be, so every quarter we look at it. And so, since the beginning of year in the first quarter when we recognized $24 million, we have not had enough confidence to recognize more, not that we don't think there is taxable income in the future, we do, but we've got to apply a confidence level. So there is a couple of different steps you have to --

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

That's a really bad word, confidence level.

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

What do you mean, that's a bad word?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

You are saying we don't have enough confidence

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

No, not confidence in the business, just confidence relative to the ability to realize it. It's a GAAP concept more than anything else.

Michael Salzhauer - *Benjamin Partners - Analyst*

So this happens prospectively or retrospectively, or the combination?

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

Predominantly, it is prospectively through the analysis.

Michael Salzhauer - *Benjamin Partners - Analyst*

That would be the reason that you didn't recognize anything this quarter?

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

Yes, when we went to the analysis this quarter, that's right, that's exactly right.

Michael Salzhauer - *Benjamin Partners - Analyst*

Because you've already put that on expecting a quarter like this quarter?

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

We already put on the $24 million previously in the year. There wasn't enough evidence to indicate that we would recognize more in this quarter.

Michael Salzhauer - *Benjamin Partners - Analyst*

Okay.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

That's [not to] say that we wouldn't recognize more.

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

We may in the future, absolutely.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Yes, there you go.

Michael Salzhauer - *Benjamin Partners - Analyst*

That $24 million was from what we earned really this year?

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

Actually, it had to do with future years. So, a piece of it but predominately it was future years, meaning 2016 and 2017.

Michael Salzhauer - *Benjamin Partners - Analyst*

I'm oversimplifying. That's my specialty. Could you describe the difference between CashCall's process and Quicken's Rocket Loan, which is getting a lot of press?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

I personally called their line, I didn't see much difference, to be honest with you. I'm not prepared to really -- I don't know much about it, but you give it a call and you are still dealing with a loan officer. You have the ability to enter information, but I think that you'll be able -- I think that in the future, I don't think it is here yet, because most people still want to deal with a loan officer. My son, however, would be more than happy in the future, to do everything over the Internet. But I still think it is probably a little bit premature.

Michael Salzhauer - *Benjamin Partners - Analyst*

Okay.

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

Let me add to that. Really, what a borrower wants, he wants an ease of transaction, he wants the best rate available, and he wants it done very quickly. What CashCall has to offer, and we refer to them as a wholesale-retail lender, so they have, at any one time, they will have probably the absolute best rate available for that borrower, and they do predominately no-cost refinances, so the financing costs our borne within the loan itself.

And you add to that, the fact that when they are doing their loans on average, they are doing it from open to close in 15 days or less. So from the standpoint of offering the best rate and the fastest close, as Joe mentioned earlier, CashCall is a premier lender there, that they are able to -- the two main things that the consumer wants, which is, I want the best rate, ease of transaction, and close quickly.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

One last thing and this is -- we have a lot of experience with automation. In 2000, I think it was 2000, we came out with our automated underwriting system, and it became so successful that we eventually licensed it to a lot of our customers. We've relaunched that, and I think the appropriate way to do this, because the automation, is you've got to get the architecture right. The old saying, the leading edge can be the bleeding edge? We know how to do automated underwriting. We have done it in the past, in our past, we were doing a little over $2 billion a month in automated underwritings.

And as Bill said, the customer really wants an ease of the transaction. We are moving in that direction. CashCall is, as Bill said, I think it is the premier lender in its space for what it does.

Now that we are adding the AltQM or the non-QM product here, coupled with our automated underwriting, it is going to even make it more efficient and even faster. And over time, we will go ahead and implement different automations to different segments of the business, as long as we see that the architecture will be there for the future, and that it makes sense, not only economically, but also, that it makes sense for the borrower to use, because that's where everybody wants to go, right?

Michael Salzhauer - *Benjamin Partners - Analyst*

I think so. I have really just one more question. I think you had a great year and a good quarter, and the stock is down 16.5%. Part of the problem is that nobody's heard of this Company. Is there any thought about trying to get coverage of the Company, and doing some roadshows to tell the story of the Company?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Hold on a sec. What's that? Everybody is flashing me signs. Sitting around this table is like speaking in sign language.

Michael Salzhauer - *Benjamin Partners - Analyst*

Especially the lawyer, right?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Nobody wants to give you an answer because I guess certain legal concerns but let me -- yes, we expect that we will initiate coverage, I think this month or next month.

Michael Salzhauer - *Benjamin Partners - Analyst*

I think that would be very helpful.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Yes, no, I agree with you 100%. It has been a little frustrating for us. We used to have, seven or eight years ago, every analyst in the world was covering us, and now no one covers us. We are working to change that.

Michael Salzhauer - *Benjamin Partners - Analyst*

It is my opportunity, but it is getting old. Thank you all very much.

Operator

Daniel Baldini, Oberon Management.

Daniel Baldini - *Oberon Asset Management - Analyst*

Listen I don't really have question, I have a comment, and that would -- first of all, I note that the financial information in this press release is more detailed than in previous ones, and find that quite helpful. But if you could further expand on that by including a balance sheet in future press releases, that would at least make it easier for me to ask intelligent questions. That's just simply a comment.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

Okay. It is noted, but since I have to read these things, and I don't like to read balance sheets, it probably won't get in there, but I am being a bit facetious, we will take that under advisement. It is pretty hard to put a balance sheet in the --

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Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

You can put a summary balance sheet in there. Yes, we will do that. We will look to do something like that.

Daniel Baldini - *Oberon Asset Management - Analyst*

Many thanks.

Operator

Jonathan Shafter, Anakarana.

Jonathan Shafter - *Anakarana LLC - Analyst*

Just a few things. First you provided some good volume color on the year to date. Any comment you can make on gain-on-sale margin trends, so far what we've been seeing in 2016 given all the volatility in capital markets, have those been consistent?

Bill Ashmore - *Impac Mortgage Holdings, Inc. - President*

I think we are going to see during the first quarter some stronger gain on sale margins than we have seen. There was some margin compression as volumes declined in the fourth quarter. But now that you're seeing increase in volumes you are seeing some of those margins expanding out, so I think, I believe you will see better margins in this first quarter.

Jonathan Shafter - *Anakarana LLC - Analyst*

Okay, great. Second, you put in place an at the money share issuance program, but I'm going back to the last question, there was no balance sheet on the release. Can you tell us, has that program been active, were any shares issued under that program so far?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

The program is been activated but we have not released any shares. We are very judicious about when we issue shares, and when we take down capital. When we have the need, and the purpose for this is, when we have need for capital, and we can deploy the capital, and it's not necessarily dilutive to our existing shareholders, then we take down capital.

Jonathan Shafter - *Anakarana LLC - Analyst*

Can you draw a line in the sand for us, and tell us, since it sounds like you don't need the capital, at what point you will not issue shares?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

No, that would be like betting against myself, and this isn't Vegas. That would be -- no, we don't do that. That's the whole purpose of an ATM is you take down shares as you need it, and as you can use it for operational purposes, and usually for us it's always been, we take capital down when we know we can deploy it, and we can grow the Company.

Jonathan Shafter - *Anakarana LLC - Analyst*

You mentioned when it's not dilutive. I didn't know if was a price at which you consider it non-dilutive that's -- below that level, you won't issue shares?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

I'm sorry, it was very hard. Did you understand the question?

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

Yes, he was referencing at what point do you think -- you were talking about the non-dilutive and I think that, that is a determination we will make relative to how we are going to issue the shares and at what price.

Jonathan Shafter - *Anakarana LLC - Analyst*

Okay. Great. Then in the last quarter, I think you were not in compliance with some covenants on the warehouse. Has that all been restored at this point?

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

You coming across garbled --

Todd Taylor - *Impac Mortgage Holdings, Inc. - CFO*

I heard him. Yes, and when you say last quarter you are referring to the third quarter. In the fourth quarter, they've all been cured

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Jonathan Shafter - *Anakarana LLC - Analyst*

Okay, fantastic. Thank you.

Operator

Thank you very much, and that's all the time we have for questions for today. Mr. Tomkinson, I will turn it back to you for any closing remarks.

Joe Tomkinson - *Impac Mortgage Holdings, Inc. - Chairman & CEO*

I don't have any more remarks. I just want to thank everyone that participated. Thank you for joining us, and thanks for the good questions. With that, we will sign off.

Operator

Thank you very much, and ladies and gentlemen, this does conclude the conference call for today. We thank you for your participation and ask that you disconnect your lines. Have a good day, everyone.